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SUBJECT: PREMIER'S NPC REPORT PLEDGES MORE REFORM, TACKLES TOUGH SOCIAL, ECONOMIC PROBLEMS

REF: A. BEIJING 792

1B. BEIJING 767

Classified By: Political Section Internal Unit Chief
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Summary

11. (C) The State Council's annual "Government Work Report," read by Premier Wen Jiabao at the opening session of the National People's Congress (NPC) on March 5, reviewed China's major hot-button economic, administrative and social issues and provided general policy priorities to tackle them. The rough equivalent of the State of the Union address, it closely followed the ideological and policy priorities laid out at the 17th Communist Party Congress last fall. Wen issued a strong call for continued market reforms tempered by social justice and balanced development and promised to devote more resources to a variety of serious infrastructure, environmental and social problems. Wen broke no ground on political reform, pledging administrative reform but revealing no details on the "super-ministry" plan, while reiterating the need to crack down on corruption. The Report also indicated that inflation is a top leadership concern. In the section reviewing foreign policy developments, the Report used language that suggests some progress in China's embrace of a "responsible stakeholder" role and took the unusual step of specifically naming the United States, placing it first in the list of successful bilateral relationships. The Taiwan portion was consistent with China's generally low-key rhetoric in the run-up to the Taiwan presidential election this month. Xi Jinping's appointment as co-chair of this session, a position previously held by current Vice President Zeng Qinghong, may signal that Xi will be "elected" to take Zeng's place later in the proceedings. End Summary.

Curtain Rises on Annual Political Theater

12. (C) China's most extravagant display of political theatrics, the National People's Congress (NPC), opened on March 5 in Beijing amid great fanfare and tight security in the Great Hall of the People. NPC Chairman Wu Bangguo called the meeting to order and yielded the floor to Premier Wen Jiabao, who read his two-hour and forty minute Government Work Report to the nearly 3,000 newly-elected deputies, diplomatic and press corps, and a national TV audience. Since this was the first plenary session of a new (11th) NPC, which is elected to a five-year term, the Report reviewed the Government's accomplishments and shortcomings over the past five years while laying out the policy priorities for the

coming year. Delegates applauded throughout, mostly on cue from Wen, but reserved their most enthusiastic, sustained and seemingly spontaneous, applause for Wen's remarks opposing Taiwan's independence.

¶3. (C) The session was attended by China's entire senior leadership, which included not only the current 25 members of the Politburo, but also four former Politburo members who retired from their positions at the 17th Party Congress last October but still retain Government portfolios. (Note: These four, Zeng Qinghong, Wu Yi, Zeng Peiyan and Cao Gangchuan, are all expected to give up their Government positions at this year's NPC session.) The seating of Xi Jinping directly to the right of NPC Chairman Wu Bangguo in the first row of seats on the dais together with other "executive chairman" of the Presidium in charge of this NPC session may indicate that Xi is slated to become Vice President, which would further solidify his position as heir apparent to Hu Jintao in 2012. Records from five years ago indicate that Zeng Qinghong was appointed (and seated) in this same position, prior to his elevation to the Vice Presidency in 2003. (Note: Zeng Qinghong sat with other Politburo Standing Committee (PBSC) members, who were seated in protocol order, with Zeng sitting in his traditional fifth spot. Current and former Politburo members not on the PBSC were seated according to the number of strokes in their surnames.)

Following Hu Jintao's Blueprint

¶4. (C) Wen's Report hewed closely to the ideological and policy prescriptions adopted by the 17th Party Congress convened last October which endorsed the economic and social "vision" associated with Communist Party General Secretary Hu Jintao. The Report's overview of Government achievements in

the past five years, the "lessons learned" section, the ideological slogans and the policy outline for the next year reflected Hu's development model: continued robust market

reforms, balanced and sustainable development that takes account of environmental impact and resource conservation, and reallocation of resources to close the rural-urban income gap and provide adequate health care, education, housing and social welfare guarantees. Wen attributed the successes of the past five years to "the correct leadership" of the Central Committee "with Hu Jintao as General Secretary."

¶5. (C) Wen's report was laced with the ideological slogans associated with Hu that underpin these economic and social policy priorities. Thus, he described the "Party's ideological line" as a call to "liberate our thinking" and "follow a realistic and pragmatic approach." He called for holding fast to Hu's primary ideological construct, the "Scientific Development Concept," which he called "a major strategic concept for developing socialism with Chinese characteristics" and "an important guiding principle" for China's economic and social development. He said that while development remains the top priority, the Party must continue to "put people first" and "promote social fairness and justice." Noting the need especially to improve the lives of "low-income people," he said that the purpose of Government is to "ensure that all of the people share in the fruits of reform and development." Finally, in a clear shot at continuing carping from orthodox Communist officials who seek to roll back market reform, Wen, to resounding applause, declared that there was no turning back from the reform and opening policies of the past 30 years. This policy direction, he said, is a "crucial policy choice" that is "shaping the destiny of contemporary China."

Political Reform and Rule of Law

¶6. (SBU) Wen broke no new ground on political reform, instead sticking mostly to typically vague platitudes, though he did make some specific proposals, including soliciting public

opinion on some draft legislation. Reviewing the past five years, Wen made familiar claims that China had made progress in developing "democracy" the legal system ad "law-based government," while also safeguarding "people's rights and interests" and ensuring "social fairness and justice." Turning to goals for 2008, Wen drew from language in Hu Jintao's 17th Party Congress political report by pledging to carry out elections, decision-making, administration and oversight "in accordance with the law," while claiming China would allow the public to participate in, express views on and oversee Government affairs. Specifically, Wen said China would "in principle" release draft legislation to solicit public views on issues concerning "the interests of the people." (Note: Although Wen made general references to minor reforms concerning China's law enforcement agencies, his comments appeared to fall short of those Hu Jintao made in the Party Congress political report, which had stated the need to "ensure that courts and procuratorates exercise their trial and prosecution powers independently and impartially in accordance with the law.")

¶7. (C) Though he cited the need for administrative reform, Premier Wen avoided revealing any specifics regarding the Government's plans for restructuring entities under the State Council and creating "super ministries." Wen did, however, tout such administrative tinkering as an important type of "political reform" with significant implications for the economy. The primary objective of such reforms, Wen said, is to raise Governmental efficiency by clarifying the division of responsibilities among Government entities, particularly those involved in management of the economy and the provision of public services, while also improving oversight functions and enhancing transparency. Wen referred specifically to the controversial "Super Ministries" proposal but shied away from specifics, merely saying the Government's plan will be submitted to the NPC for deliberation and approval. (Note: The Government is scheduled to present its State Council restructuring plan at an NPC plenary session on March 11.)

¶8. (SBU) In accordance with the Government's emphasis on anti-corruption the past few years, Premier Wen sounded tough on cracking down on malfeasance, using rhetoric that was perhaps slightly harsher and more detailed than last year. Wen said in the past five years, the Government had combated corruption and improved Government conduct by cracking down on bribery in business and by uncovering illegality and dereliction of duty among officials. In the year ahead, Wen pledged to "attach even greater importance to combating corruption and encouraging integrity." Wen said China would

take a "dual approach" to countering corruption that combined both prevention and punishment, with the greatest emphasis on prevention. Describing the causes of corruption, Wen delineated the problems of "excessive concentration of power and lack of checks on power," which he pledged to address through various ill-defined administrative measures. Issuing a warning to Government officials, Wen resolved to "strictly curb bribery in business, resolutely bring corrupt people to justice and prosecute them to the full extent of the law."

Economic Plan for 2008: Inflation a Major Challenge

¶9. (C) In addressing the state of the economy, Wen warned of mounting inflationary pressure in China and said inflation, as evidenced by the 4.8 percent increase in the Consumer Price Index (CPI) in 2007, is the "biggest concern of the people." Wen admitted it will be difficult for the Government to control prices. Media reports and statements by Government officials prior to the NPC session indicated that controlling inflation would be the major economic challenge for the Central Government, and Wen stated in the Work Report that preventing fast economic growth from becoming overheated growth and keeping price increases from turning into significant inflation would be the primary tasks for macroeconomic regulation in 2008.

¶10. (C) The Premier said the GDP should grow by approximately

8 percent in 2008, and the CPI should not rise above 4.8 percent. (Comment: Central Government estimates of GDP growth during the NPC always are lower than the actual expectation, and most analysts believe China's GDP will experience double-digit growth again in 2008 (the GDP grew by 11.4 percent last year). A CPI increase of 4.8 percent would be the same as 2007 but may be unrealistic, as on the eve of the Work Report, Goldman Sachs upgraded its annual inflation forecast to 6.8 percent in 2008. End Comment.) Wen stated that China is increasingly wary of possible external shocks, specifically singling out the potential negative impact on China of the U.S. sub-prime mortgage crisis, the falling dollar and growing risks in global financial markets.

Macroeconomic Controls

¶11. (C) In addition to controlling inflation, Wen said efforts to improve macroeconomic regulation in 2008 would focus on:

-- Fiscal Policy: As in previous years, Wen stressed the importance of reforming the budget system, reducing the budget deficit and making better use of surplus government revenue, which totaled RMB 723.9 billion (USD 100.5 billion) in 2007, by increasing rebates on consumption and value-added taxes, and boosting spending on agriculture, environmental protection, education and building a social safety net. Wen emphasized the need to improve the transfer payments process and reform sub-provincial fiscal systems but did not propose any specific plans for such reforms.

-- Monetary Policy: Wen said China will maintain a tight monetary policy in response to excess liquidity, inflationary pressure and potential growth in fixed asset investments. Wen reiterated that China will limit credit growth to energy-intensive or polluting enterprises and industries with excess production capacity while extending credit support for agriculture, rural areas, small and medium-sized enterprises, energy conservation, environmental protection and balancing regional development.

-- Foreign Exchange: Wen repeated language from last year's Work Report, which stated that China would improve the RMB exchange rate regime to make the exchange rate more flexible.

He also reiterated the need to develop new channels and means for using foreign reserves and called for improvements to China's international balance of payments. In addition, Wen said China will improve its system for foreign exchange settlements.

-- Disaster Relief: One month after a snowstorm hit southern and central China, Wen said the Central Government would quickly repair infrastructure and restore agricultural production. He said the government had learned from the incident and would improve its disaster response system.

Further Economic Reform and Opening

¶12. (C) Wen reiterated China's commitment to further reform and opening, pledging to take the following measures:

-- SOE Reform: Wen stated that the Central Government would focus more on market-oriented State Owned Enterprise (SOE) reform proposals, including corporate governance, the separation of secondary SOE businesses from their core businesses and a call to standardize the transformation of SOEs into stock companies.

-- Foreign Trade and Investment: Further opening of the services sector in China was mentioned. Noticeably absent this year was support for specific multilateral trade negotiations such as the WTO Doha Round. Instead, Wen highlighted broad support for promoting free trade zones and honoring treaties already signed.

-- Financial System Reform: New to this year's report, Wen called for the establishment of a deposit insurance system. (Comment: There is broad consensus among Chinese financial regulators that a deposit insurance system is needed, but bureaucratic wrangling and technical issues have held up progress. The FDIC has been engaged with the Chinese in an advisory role on this issue. End Comment.) However, Wen's financial sector reform proposals were similar to last year's, including the call for development of bond and futures markets. He reiterated other themes from last year's report, including deepening reform of state-owned banks, improving the rural banking system, developing capital markets, expanding insurance coverage and strengthening financial oversight.

Energy and Product Safety

¶13. (C) Wen emphasized the importance of conserving energy, reducing emissions, protecting the environment, and ensuring product quality and safety, focusing much of his attention in this area on energy consumption and food safety:

-- Energy Consumption: Wen detailed successes in reducing energy consumption per unit of GDP and emissions, while saying that this year is crucial for meeting obligatory targets in the 11th Five-Year Plan (FYP) for energy conservation and emissions. Nevertheless, he did not provide information on China's progress towards meeting its FYP energy efficiency targets. Wen outlined a plan to close down "backward" production facilities (including electricity, steel, cement, coal and papermaking) but did not offer specific information on those industries' production and generation capacities. (Comment: The lack of specifics on meeting 11th FYP energy efficiency targets suggests that the Central Government still is facing significant challenges meeting the targets. End Comment.)

-- Product Quality and Safety: There were several rounds of applause when efforts to improve product quality and safety were addressed. Wen specifically mentioned the need for domestic confidence in food and consumer product safety and a good reputation for Chinese exports. His plan laid out specific recommendations for updating national standards, improving legal guarantees and oversight and control.

(Comment: Inclusion in this year's Work Report certainly was a response to several recent highly publicized Chinese food and product safety export issues. End Comment.)

Rural Areas, Balanced Development and Social Issues

¶14. (C) Not surprisingly, Wen again this year focused on rural development, balancing the structure of the economy and social issues:

-- Rural Areas: Following the release of the 2008 Number One Document in January, which named rural development as the State Council's top priority for the fifth year in a row, Wen announced in the Work Report that funding for rural development would increase by 30 percent.

-- Changing the Pattern of Development: Wen stressed the importance of shifting China's growth pattern from a reliance on investment and exports to a more balanced structure that encourages consumption. He criticized development that depends on blindly promoting investment projects, particularly in energy intensive industries. He said that China should promote research and development and he announced that Central Government funding for science and technology would increase 13.4 percent in 2008.

-- Promoting Regional Development: The Premier reiterated the importance of balancing development among regions, and he said the Central Government would continue to support the Great Western Development Program, Northeast China Revitalization Program and Central China Rising Policy.

-- Education: As in 2007, the Premier again emphasized the importance of developing education, particularly focusing on rural compulsory education and education for children from poor families and children of migrant workers.

-- Health Care: Wen said the Central Government would improve access to medical care in both urban and rural areas, and he officially announced that the Central Government and local governments would double their contribution to the Rural Cooperative Medical System.

-- Population and Family Planning: Wen said China would continue to carry out the one-child policy in order to maintain a low birthrate and improve maternal and child health. (Comment: There had been speculation leading up to the NPC session that the Central Government would ease restrictions on having more than one child. End Comment.)

-- Employment: Wen said the Central Government will enforce the Employment Promotion Law and Labor Contract Law and would continue to expand employment.

-- Urban and Rural Incomes: Wen stressed the importance of increasing both urban and rural incomes in order to maintain social harmony and stability.

-- Social Safety Net: The Premier echoed his statements of previous years, urging the Central Government to improve the social safety net, specifically by expanding social security coverage and improving the social assistance system.

-- Housing: Although less of a focus than in 2007, housing prices also were a priority in the Work Report, in particular ensuring the provision of housing for low income families.

(Note: Henan Party Secretary Xu Guangchun told the Ambassador on March 5 that he was very interested in the Premier's remarks on housing, as rising housing prices are a significant concern in Zhengzhou, the provincial capital (see septel). End Note.)

Foreign Policy: U.S. Role Highlighted

¶15. (C) Following past precedent in Government Work Reports, foreign policy and cross-strait relations received less attention than economic, political and social issues. Nonetheless, this year's report provided insight into China's priorities and focus for the coming year, including language that suggests some progress in China's embrace of its "responsible stakeholder" role. As was the case last year, the Report is devoid of the ideological shibboleths of the past, such as attacks on international "power politics" and "hegemonic" behavior, clear references to the United States. Wen laid out China's diplomatic priorities as being first focused on major "developed" countries, then on "neighboring countries" and finally on developing countries. He took the unusual step of mentioning key developed countries by name, listing the United States first among its list of successful bilateral relations. Wen said that over the past five years, relations with the United States developed "steadily," with Russia "reached new heights," with Europe "went from strength to strength" and with Japan "improved." Wen also highlighted China's "major multilateral diplomatic activities" and China's "active and responsible" role in resolving issues in international and regional "hotspots." While not hitting the "harmonious world" theme as hard as in the 2007 work report, Wen said that in 2008 China would again actively work to find "appropriate solutions" to major hotspots and global issues. With respect to defense policy, the Report's language offered a possible indication of a broadening focus away from preparing only for a Taiwan contingency. In addition to standard language about protecting sovereignty, security and territorial integrity, Wen called on the military to enhance its ability to "respond to security threats and accomplish a diverse array of military tasks"

¶16. (C) Wen also addressed the Olympics, noting that the

entire Chinese nation is looking forward to the Games, which will be of great importance in promoting China's economic and social development as well as friendship with other countries. He pledged to prepare and organize well for the Games and cooperate with the international community to ensure the Games are "unique and well-run."

Hong Kong, Macao and Taiwan

¶17. (C) There was a slight shift in language that put greater emphasis on Hong Kong and Macao's own efforts at development, as opposed to last year's report that called on the NPC to work together with the people of Hong Kong and Macao to promote prosperity and stability. The Taiwan portion was consistent with China's generally low-key rhetoric in the runup to the Taiwan presidential election this month, providing little in the way of sound bites that might influence the election outcome. (Note: The Report's language was considerably less sharp than that of NPC spokesman Jiang Enzhu on March 4. (Ref A). Echoing language in last October's 17th Party Congress political report, Wen stressed the peaceful resolution of differences and improving conditions for Taiwan investors in the mainland. Wen reiterated Beijing's desire for the direct mail, transport and trade links and, on the basis of the one-China principle, a resumption of cross-Straits negotiations to address major issues of concern. He made an oblique reference to the UN referendum by noting that any issue relating to China's sovereignty must be decided by all Chinese people, including those in Taiwan, and that efforts to deny the "one China" reality or undermine peace across the Strait were "doomed to fail." As with past years and the 17th Party Congress Political Report last fall, the audience gave frequent, spontaneous and emotional applause during the presentation on Taiwan and was particularly boisterous in supporting the assertion that China will never tolerate Taiwan independence.

RANDT